

**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 1, 2008 Through June 12, 2009**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 1, 2008 Through June 12, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Wayne County Sheriff for the period June 1, 2008 through June 12, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,755,512 for the districts for 2008 taxes, retaining commissions of \$238,801 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,508,616 to the districts for 2008 taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation of Duties Over Receipts and Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting System

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gregory Rankin, Wayne County Judge/Executive

Honorable Charles Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the Wayne County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through June 12, 2009. This tax settlement is the responsibility of the Wayne County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Wayne County Sheriff's taxes charged, credited, and paid for the period June 1, 2008 through June 12, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Gregory Rankin, County Judge/Executive
Honorable Charles Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation of Duties Over Receipts And Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting System

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 16, 2009

WAYNE COUNTY
CHARLES BOSTON, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period June 1, 2008 Through June 12, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 768,244	\$ 1,047,975	\$ 2,318,730	\$ 743,855
Tangible Personal Property	155,657	166,658	175,949	179,258
Fire Protection	3,513			
Increases Through Exonerations	109	117	127	148
Omitted Taxes	3	3	8	2
Current Year Franchise - Billed	78,946	84,861	93,151	
Prior Year Franchise - Billed	10,038	10,805	13,182	
Additional Billings	75	100	231	73
Oil and Gas Property Taxes	663	885	2,032	642
Limestone, Sand and Mineral Reserves	143	191	360	139
Bank Franchises	52,536			
Penalties	5,636	7,522	15,933	5,406
Adjusted to Sheriff's Receipt		28		(4)
Gross Chargeable to Sheriff	<u>1,075,563</u>	<u>1,319,145</u>	<u>2,619,703</u>	<u>929,519</u>
<u>Credits</u>				
Exonerations	3,006	4,031	8,762	2,802
Discounts	14,968	18,082	36,388	13,556
Delinquents:				
Real Estate	11,787	15,977	35,673	11,393
Tangible Personal Property	2,234	2,392	2,593	3,327
Intangible Personal Property				
Current Year Franchise - Uncollected	356	511	390	
Prior Year Franchise - Uncollected	59	63	68	
Total Credits	<u>32,410</u>	<u>41,056</u>	<u>83,874</u>	<u>31,078</u>
Taxes Collected	1,043,153	1,278,089	2,535,829	898,441
Less: Commissions *	<u>44,622</u>	<u>54,274</u>	<u>101,433</u>	<u>38,472</u>
Taxes Due	998,531	1,223,815	2,434,396	859,969
Taxes Paid	997,272	1,222,124	2,430,467	858,753
Refunds (Current and Prior Year)	<u>1,259</u>	<u>1,691</u>	<u>3,929</u>	<u>1,216</u>
Due Districts or Refunds Due Sheriff as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* See Next Page.

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
CHARLES BOSTON, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period June 1, 2008 Through June 12, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,190,867
4% on	\$	2,554,645

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

June 12, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Wayne County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
June 12, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Wayne County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 12, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2008 through June 12, 2009.

Note 4. Interest Income

The Wayne County Sheriff earned \$1,110 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Wayne County Sheriff collected \$25,346 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Wayne County Sheriff collected \$285 of advertising costs and \$3,025 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gregory Rankin, Wayne County Judge/Executive
Honorable Charles Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Wayne County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through June 12, 2009, and have issued our report thereon dated October 16, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties Over Receipts and Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting System



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiency described above to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation of Duties Over Receipts and Disbursements

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wayne County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through June 12, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 16, 2009

COMMENTS AND RECOMMENDATIONS

WAYNE COUNTY
CHARLES BOSTON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period June 1, 2008 Through June 12, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties Over Receipts and Disbursements

During our review of internal control over receipts and disbursements, we noted the following control deficiency. We consider this control deficiency to be a significant deficiency and a material weakness in internal control over financial reporting.

- ❖ The Sheriff's office employs two office deputies who rotate duties. However, both office deputies open incoming mail, receive cash from customers, prepare the daily checkout sheets, post to the receipts ledger and prepare the daily bank deposit.
- ❖ Both office deputies make purchases; prepare bank reconciliations, as well as sign and issue all checks. A co-signature is not required on checks and the Sheriff does not sign them.
- ❖ The Sheriff does not approve journal entries that are not standard entries.

Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts, as well as signing, recording and reporting of disbursements. Compensating controls are controls that limit the severity of a control deficiency by mitigating the effects. However, they do not eliminate the control deficiency. Compensating controls were noted during the review of internal controls over receipts and disbursements but were not sufficient to limit the severity of the deficiency. The Sheriff could limit the severity of the lack of segregation of duties over receipts and disbursements by implementing compensating controls.

Sheriff's Response: The official did not respond.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting System

During our review of internal controls over receipts and disbursements we noted the following control deficiency with regard to the Sheriff's computerized accounting software. We consider the control deficiency to be a significant deficiency in internal control over financial reporting:

- ❖ The Sheriff's office does not have a computer policy and procedures manual available to all computer operators.
- ❖ The Sheriff's office does not provide training for both general computer operations and software packages for new computer operators and no refresher courses are provided.
- ❖ Computer passwords are not changed at regular intervals.
- ❖ Computer modem is not logically turned off or physically disconnected when not in use, in order to prevent unauthorized access.
- ❖ The Sheriff's office does not have procedures in place in case of virus infection.

We recommend the Sheriff's office strengthen internal controls over computerized accounting systems in order to prevent unauthorized access.

